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## Pakistan

### Grain and Feed

### Annual Report

### 2006

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**Report Highlights:**

Pakistan's My 2006/07 wheat production is forecast at 21 Million Metric Tons (MMT), due to an increase in fertilizer use, sufficient water available for irrigation and above normal temperatures in February. Pakistan is expected to import 0.6 MMT of wheat despite a good harvest, primarily for the Karachi market, where inland wheat is relatively more expensive than imported wheat due to land transportation costs. In addition, Pakistan opened its wheat import market to the commercial sector.

Pakistan's MY 2006/07 rice production is forecast at 5.2 MMT and exports at 2.4 MMT.

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## Executive Summary

Pakistan's MY 2006/07 wheat production is forecast at 21 MMT on higher expected yields following greater availability and use of production inputs. Imports are estimated at 0.6 MMT, reflecting the government's determination to continue an unrestricted trade policy and a domestic market that attracts wheat and wheat flour at above market rates.

Pakistan's MY 2006/07 rice production is forecast at 5.2 MMT on higher production of both IRRI and Basmati rice. Farmers in Sindh and Balochistan have diverted a large acreage of Basmati rice to IRRI rice, whereas in Punjab the major thrust is for growing Basmati rice. MY 2006/07 rice export is forecast at 2.4 MMT.

## WHEAT

**Table 1: Wheat Production, Supply and Demand**

Pakistan Wheat							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate New]	USDA Official [Old]	Post Estimate New]	USDA Official [Old]	Post Estimate New]	
Market Year Begin		05/2004		05/2005		05/2006	MM/YYYY
Area Harvested	8200	8216	8300	8300	0	8300	(1000 HA)
Beginning Stocks	1584	1367	2450	2267	3900	2667	(1000 MT)
Production	19000	19500	21000	21600	0	21000	(1000 MT)
TOTAL Mkt. Yr. Imports	1416	1400	800	600	0	600	(1000 MT)
Jul-Jun Imports	1416	1400	800	600	0	600	(1000 MT)
Jul-Jun Import U.S.	419	373	0	100	0	100	(1000 MT)
TOTAL SUPPLY	22000	22267	24250	24467	3900	24267	(1000 MT)
TOTAL Mkt. Yr. Exports	50	0	50	0	0	0	(1000 MT)
Jul-Jun Exports	50	0	50	0	0	0	(1000 MT)
Feed Dom. Consumption	400	400	400	400	0	400	(1000 MT)
TOTAL Dom. Consumption	19500	20000	20300	21400	0	21800	(1000 MT)
Ending Stocks	2450	2267	3900	2667	0	2067	(1000 MT)
TOTAL DISTRIBUTION	22000	22267	24250	24467	0	24267	(1000 MT)

## Production

MY2006/07 production is forecast at 21 MMT, slightly lower than last year's record production of 21.6 MMT. The dry spell during early in the growing season and rise in temperature during February may lower production slightly below last year. Regardless of these factors, this year's crop is forecast to be the second largest crop harvest on record. This is due to increased availability of irrigation water, good management practices and an increased application of fertilizers and herbicides. The 21 MMT production forecast represents potential production and assumes no further deterioration in the condition of the crop before the harvest scheduled to begin the later half of March.

An increase in fertilizer use is one important factor that will determine final crop size: use of urea and DAP fertilizer will increase 10% and 4% respectively over the corresponding amounts used last year.

Pakistan has emerged rapidly from the ravages of the 6-year drought. Water available for agricultural irrigation this year is thirty three percent greater than the corresponding period last year. Stored water for irrigation is held mainly in two large reservoirs, Tarbela and Mangla, for use during the summer or during the "Rabi," or winter growing season. About two-thirds of the country's water for irrigation is sourced from snow and glacier melts, with the remainder derived from seasonal monsoon rains.

Since the irrigation system was completed in the 1970s, demand has increased by more than 50 percent while storage capacity has decreased one-third due to silting. This has left per capita availability at a fraction of its original level. As a result, chronic shortfalls in water available for irrigation are expected to impose an increasingly larger constraint on Pakistan's agricultural advancement.

In Sindh Province, the shortage of water is less severe than last year and, since the harvest began early, the crop is in good shape. Ground water in most areas is alkaline and not fit for tube well irrigation, necessitating a greater reliance on canal water. In the Punjab province, where extensive tube well irrigation is utilized, the crop is generally considered to be in normal condition as of March 9, 2006. With the bulk of the Punjab crop about to enter the grain-formation stage moderate temperatures and sunlight during the month of March will be critical for the success of this year's output. The Planting of crop in N.W.F.P and AJK has been affected by the devastating earthquake in October 2005, but as the area hit by this calamity is not part of traditional grain basket the effect on overall production will not be significant.

The 2006/07-crop output forecast of the Ministry of Agriculture (MINFAL) is 22 MMT. The MINFAL production target of 22 MMT is based on a harvest of 17.4 MMT in Punjab. However dry spell during first three months of current crop and above normal temperatures during February will negatively effect production.

## **Consumption**

Consumption is difficult to gauge. As wheat exports are not legal, cross-border trade with Afghanistan has been captured in domestic consumption, whereas it disappeared as exports during 2000-03 period. However, local officials note that around 1,000 MT of wheat and wheat flour is still moving across the border to Afghanistan from different points daily. Further, customs data do not report export to Afghanistan. Therefore, MY 2006/07 consumption estimate has been increased to absorb the cross-border trade with Afghanistan and Iran.

Prior to September 2004, domestic flour and bread prices generally remained stable due to adequate government and privately held stocks. However the quick draw down of government-held stocks and very limited availability of supplies in the open market have combined to nudge wheat and wheat-based product prices upward.

Consumer preferences are shifting, from traditional flat bread to western style loaf bread, particularly in urban areas where it is viewed as a convenient breakfast food, and from traditional home-ground flour to commercially produced flour. The change in preference from higher to lower extraction flour is translating to greater consumption of wheat. Demand for specialized products also is expected to increase in response to changing

lifestyles more supportive of western-style fast food chains recently introduced into the country.

Pakistan's wheat milling industry is privately owned. Principal milled products include "midda" (which is a 72 percent extraction flour used for loaf bread and other products) and "atta" (which is an 82 percent extraction flour used for flat breads). For quality and price reasons millers prefer to mix local semi-hard white wheat with imported soft white wheat at a 60:40 rate. Although consumers traditionally prefer white bran wheat, millers can blend up to 20 percent bran wheat to produce "atta" and up to 10 percent to produce "midda" while still producing an acceptable product.

Under ongoing reforms the government is removing itself from regulating the market and is reducing the remaining consumption subsidy offered for wheat. With the market better able to set the price, the advantages accrued for buying from or selling to the government is declining. With removal of many restrictions on wheat transportation and storage, the government is creating an environment better able to facilitate trade. Further, the State Bank of Pakistan (Central Bank) now authorizes commercial banks to provide private sector financing for up to 50 percent of the wheat stocks. If the government stays on course, barring a natural disaster, this year's wheat market should be regulated only by stock availability and international price.

## Trade

Traditionally, Pakistan is a wheat importer. It is expected that imported wheat arrivals would begin in the fall of 2006 to respond to demands in MY 2006/07, especially if there is continuity in the government's liberal domestic sales and wheat import policy. The GOP has announced a continuation of the more liberal trade policy set for wheat and its products in the coming years. MY 2006/07 import volume is projected to be same as last year. These imports primarily reflect the needs of the Karachi market, where inland wheat is more expensive, than imported wheat due to transportation costs. Political pressure to hold prices may increase demand for a government release of subsidized stocks onto the market. This leads most observers to believe that imports will be necessary to avoid a crisis during the second half of MY 2006/07.

During MY 2005/06 the Ministry of Food, Agriculture and Livestock (MINFAL) redefined its wheat specifications to be used for government tenders. Revised specifications and type follows (note the specs call for GM free and new crop wheat):

Type:	Soft White or Medium Hard White Wheat US Grade-2 or better /Australian White Milling Wheat/Canadian Wheat Board Western Canadian Chappati Wheat/Russian/or Central Asian Republic Milling Wheat
Test Weight:	78 kg/HL minimum (75Kg/HL minimum for Australia/Canada)
Shrunken, broken and shriveled Kernels	5% Max. (Including heat and sprout damaged 0.5% max) 7% Max for Canada (including heat and sprout damaged 0.5%
Heat and sprout damaged /Insect and Fungus Damaged grains	Max)
Protein (Whole Meal Flour)	10% minimum (11% minimum for Canada)
Moisture Contents:	12% maximum (14.5% Max for Canada, 13.5% for Russia)
Foreign Matter:	1% Max. (Inorganic not exceeding 0.1%) 2.5% Max. for Canada 2% Max for Russia
Wet Gluten	23% minimum, 27% Min. for Canada 22% Min. for Russia

Falling Number:	250 per second minimum
Color	Original color, shape and texture
Mycotoxin:	Aflatoxin less than 30 parts per billion Ochratoxin less than 25 parts per billion Zearalenone less than 200 parts per billion Vomitoxin less than 2 parts per billion Deoxynivalenol less than 1000 parts per billion
Dockage total deductible:	0.55 Max. (1.5% Max. for Australia)
Quarantine:	Should meet quarantine requirements of Pakistan
Dioxin:	Free
Dead/Live insects/larvae:	Free
GMO:	Not Genetically Modified
Heavy metals:	Within WHO permissible limits
Special requirements:	a) Free from <i>Tilletia indica</i> . Certification to be based on Lab. tests at load port b) Free from Kernel bunt and <i>Striga</i> weed c) Fit for human consumption d) Treated with phosphine at or immediately prior to loading at the rate of 3 gms. Of Phosphine active ingredient per cubic meter volume of wheat grain or as prescribed under law of country of origin. e) Fresh crop stocks, free from rodent's residues and poisonous Seeds f) Radioactivity within WHO permissible limits

During MY 2005/06 MINFAL contracted to import 0.8 MMT of wheat. Due to a record production and heavy procurement by the private sector, vis-à-vis government, the prices initially remained above the support price, but due to slow releases at the close of MY 2005/06 prices showed declining trend. Government stocks are still maintained due to less demand from the private sector. Recently Karachi has emerged as a market for the imported wheat as cheaper wheat from Russia and Central Asian Republics is touching the market after the relaxation of wheat import specifications during the last year.

The United States traditionally has been the primary wheat supplier to the Pakistani market for quality and reliability reasons. Australia, however, has made significant inroads into this market through the use of predatory pricing, cheap freight and credit, and other non-market tactics. Canada is an occasional supplier to this market. The Australian Wheat Board Ltd. (AWB) considers Pakistan to be a premium market. The AWB often commands a premium of \$10 or more in this market over better-quality U.S. soft white wheat (SWW) FOB prices by virtue of its freight advantage. The AWB also receives an additional premium through the manner in which Pakistan tenders (asking for C&F offers). Due to relaxation in wheat import specifications Russia and Central Asian Republics have also entered into Pakistan's wheat market. Although June is when U.S. prices are lowest and the government already has a clear idea on the local crop size and import requirements, the GOP generally waits several months before buying. As a result, Pakistan buys more wheat late in the year via large tenders. Although U.S. participation in these tenders ensures the required competition, timing is such that the tender offers are high. Pakistan could save significant foreign exchange by procuring earlier in the summer when prices are more attractive. With an increasingly liberalized environment, the private sector is likely to apply a stronger business orientation in their buying decisions.

Import duties/taxes are as follow:

Wheat - zero import duty, zero sales tax  
 Wheat flour - zero percent import duty, zero percent sales tax on import

Export duties/taxes are as follow:

Wheat flour - zero percent export duty

### Stocks

The GOP holds most stocks through various provincial food departments. MY 2006/07 opening stocks of the government food departments have been forecast at 1.5 MMT. MINFAL is satisfied with the marginal opening stocks based on good harvest estimate and reports of sufficient stocks by the private sector.

### Policy

Government of Pakistan has announced to allow duty free import of wheat and wheat flour by the private sector in accordance with the prescribed specifications. Wheat and wheat products can be traded freely and banks can finance such trade.

### RICE

**Table 2: Rice Production, Supply and Demand**

<b>Pakistan Rice, Milled</b>							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		11/2004		11/2005		11/2006	MM/YYYY
Area Harvested	2519	2500	2530	2575	0	2580	(1000 HA)
Beginning Stocks	243	428	158	748	168	692	(1000 MT)
Milled Production	5020	4920	5500	5500	0	5200	(1000 MT)
Rough Production	7531	7381	8251	8250	0	8100	(1000 MT)
MILLING RATE (.9999)	6666	6666	6666	6666	6666	6666	(1000 MT)
TOTAL Imports	0	0	0	0	0	0	(1000 MT)
Jan-Dec Imports	0	0	0	0	0	0	(1000 MT)
Jan-Dec Import U.S.	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	5263	5348	5658	6248	168	5892	(1000 MT)
TOTAL Exports	2450	1800	2825	2891	0	2400	(1000 MT)
Jan-Dec Exports	2650	1800	2800	2891	0	2400	(1000 MT)
TOTAL Dom. Consumption	2655	2800	2665	2665	0	2750	(1000 MT)
Ending Stocks	158	748	168	692	0	742	(1000 MT)
TOTAL DISTRIBUTION	5263	5348	5658	6248	0	5892	(1000 MT)

## Production

MY 2006/07 rice production is forecast at 5.2 MMT based on expected improvement in yields and expanded planting of IRRI rice. In MY 2005/06, Basmati production totaled 2.55 MMT, (up 2000 MT over the previous year) and IRRI production totaled 2.9 MMT (up 199000 MT over the previous year).

During MY05/06 a record production was achieved, as during the year water availability was 46% more compared to the last year. Water availability during the critical March-May period will depend on the amount of precipitation in the catchment areas. If a cut in water distribution during this period occurs, the affect would be more pronounced on the IRRI rice acreage than the Basmati. The IRRI rice generally is grown in areas that rely heavily on canal irrigation, while Basmati is grown in areas employing large-scale tube well irrigation. Based on the source of the water input and current water availability situation, both types of rice are expected to be sown on time. Since 2000, the government discontinued setting a procurement price for paddy and milled rice, and abandoned rice procurement through state trading enterprises.

## Consumption

Rice is not a staple commodity in the Pakistani diet. Its consumption is increasing slowly as compared to that for wheat. About 50 percent of the crop is destined for local consumption while the remainder is exported. The government does not maintain official grade standards for rice. Annually an estimated 150,000 metric tons, 40 -100% broken is used in poultry feed.

## Trade

Pakistan is a major exporter of rice. MY 2006/07 export volume is projected at 2.4 MMT, consisting 0.8 MMT of Basmati and 1.6 MMT of IRRI rice varieties. All trade is conducted by the private sector, as the state owned Rice Export Corporation was abolished in early 90's. Today, another state trading agency, the Trading Corporation of Pakistan (TCP), plays a limited role in the rice trade by facilitating government-to-government exports through the private sector. The GOP, in consultation with the Rice Exporters Association of Pakistan (REAP), established a quality review committee to certify the quality of Pakistani rice prior to shipment in an effort to boost the image of Pakistani rice, especially that of Basmati rice.

Based on preliminary figures, in CY 2005 Pakistan exported 814,857 MT (812,507 MT in CY 2004) of basmati rice and 207,639,6 MT of IRRI rice. The increase in rice trade (mainly in coarse rice) is 58% as compared to the last year. This increase is mainly due to increase in production and favorable market conditions.

## Stocks

MY 2005/06 ending stocks are projected to marginally decrease due to increase in exports. All stocks are held by the private sector and are in small lots.

## Policy

There is no restriction on rice exports. For rice imports there is 10 percent import duty and 15 percent sales tax.



